

Rainbows, Unicorns and Soft Landings

Joe Lavgna

Chief US Economist

SMBC Nikko

(212)-893-1528

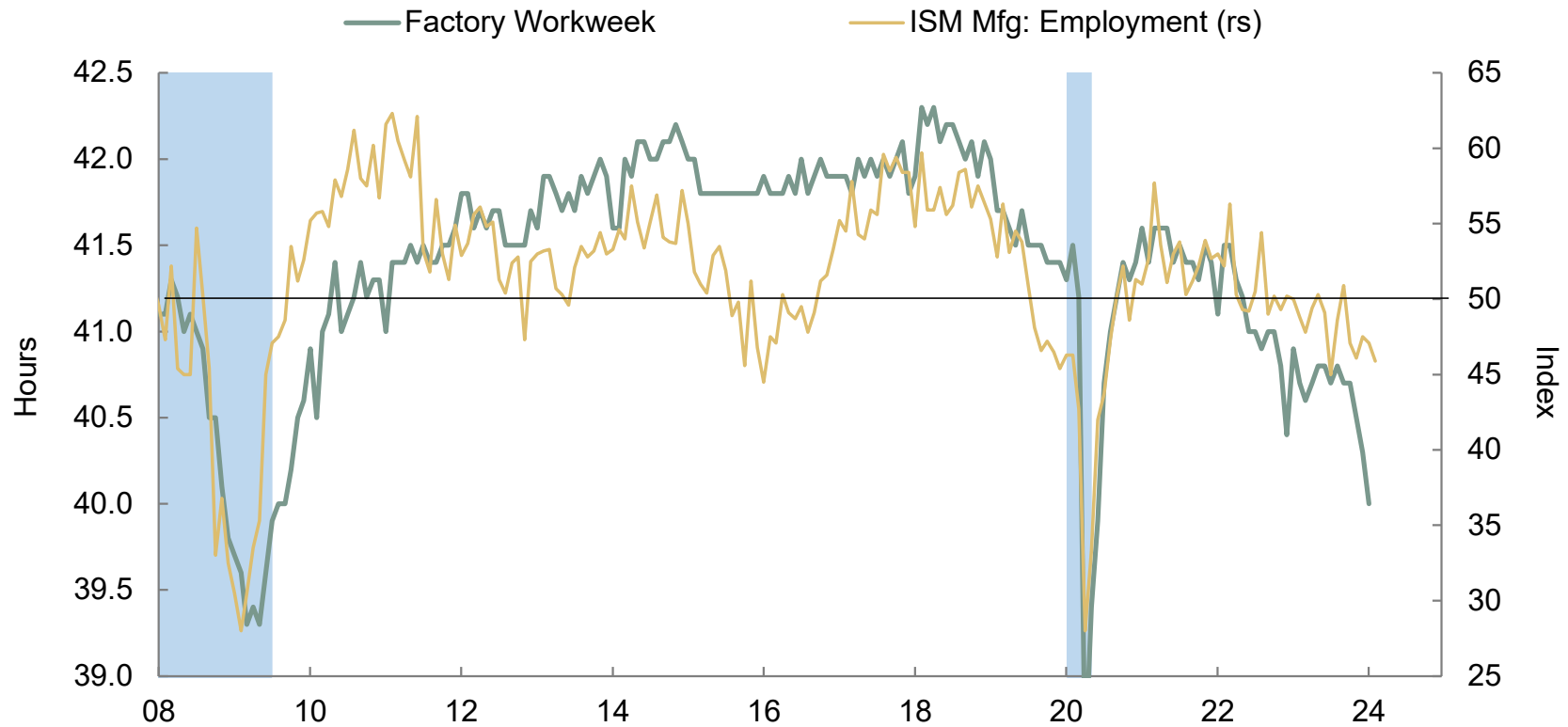
Joseph.Lavgna@smbcnikko-si.com

March 6, 2024

Summary

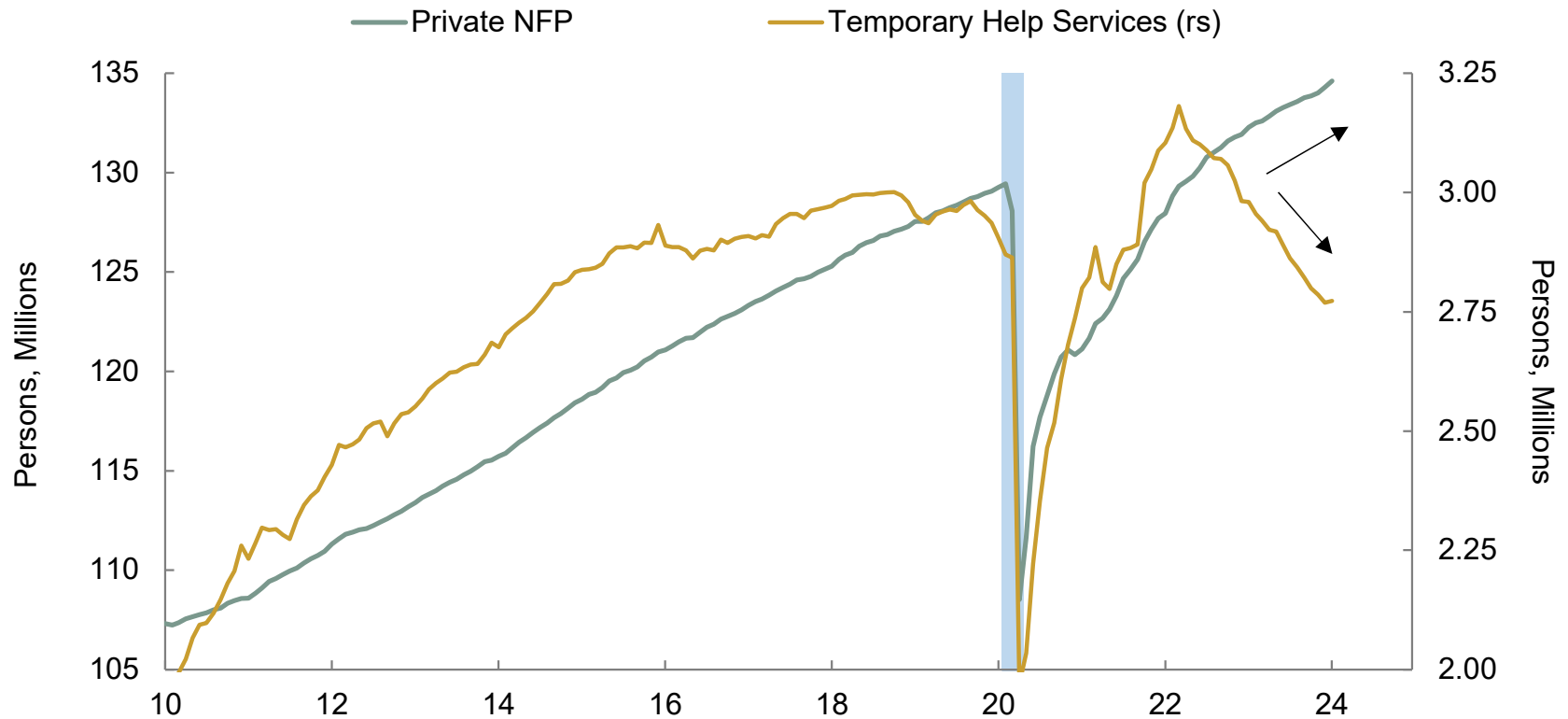
- The job gains are overstated, and residential construction is overstaffed by upwards of 1 million workers.
- Monetary policy is tight and will become tighter if the inflation rate decelerates further, as we expect.
- While the probability of a soft landing has increased, it is not yet the base case. The Fed needs to cut and cut soon.
- Excessive government spending, and the locking in of low interest rates during the pandemic, have temporarily blunted the effect of Fed tightening.

Manufacturing – First to Decline, First to Recover?



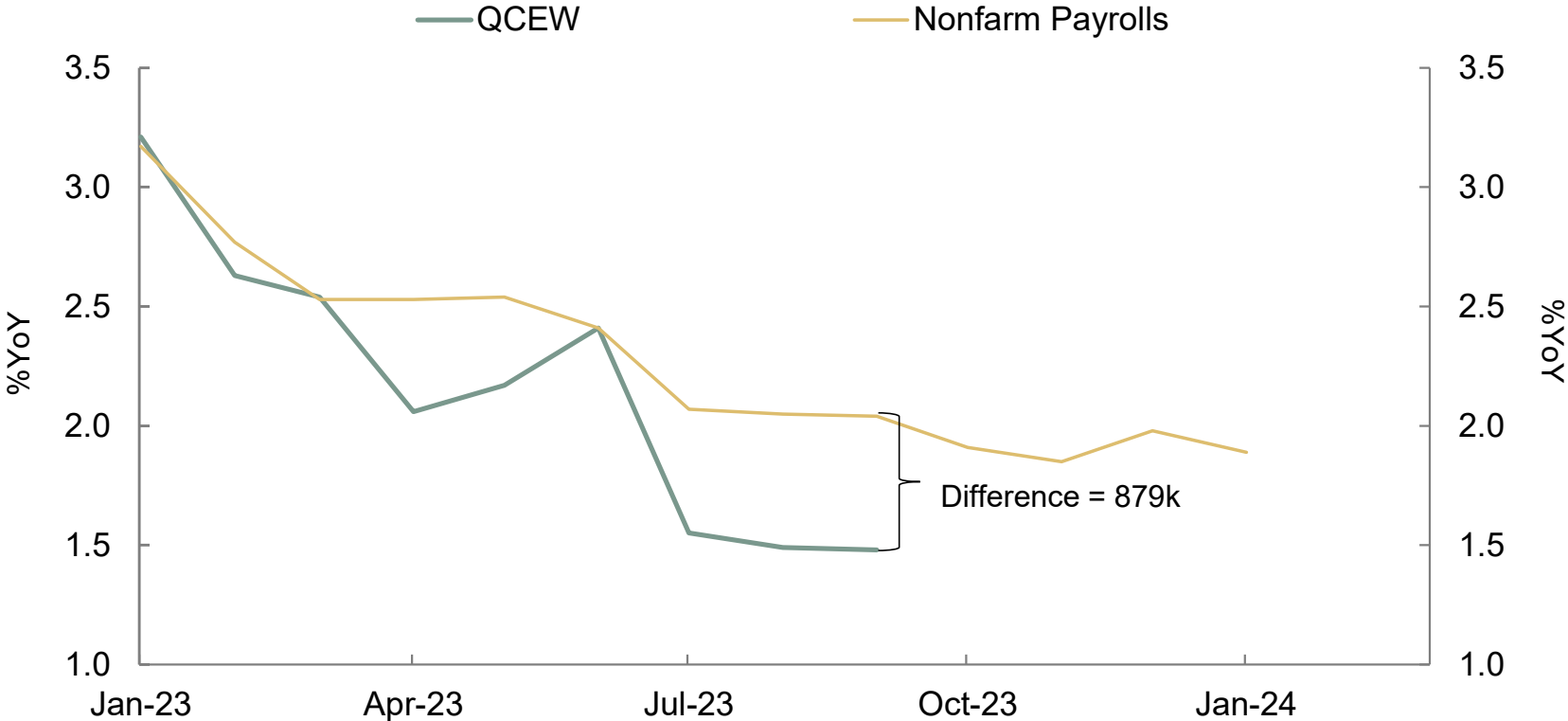
Source: BLS, ISM, Haver, SMBC Nikko

Forward Measure of Hiring Continues to Sour



Source: BLS, Haver, SMBC Nikko

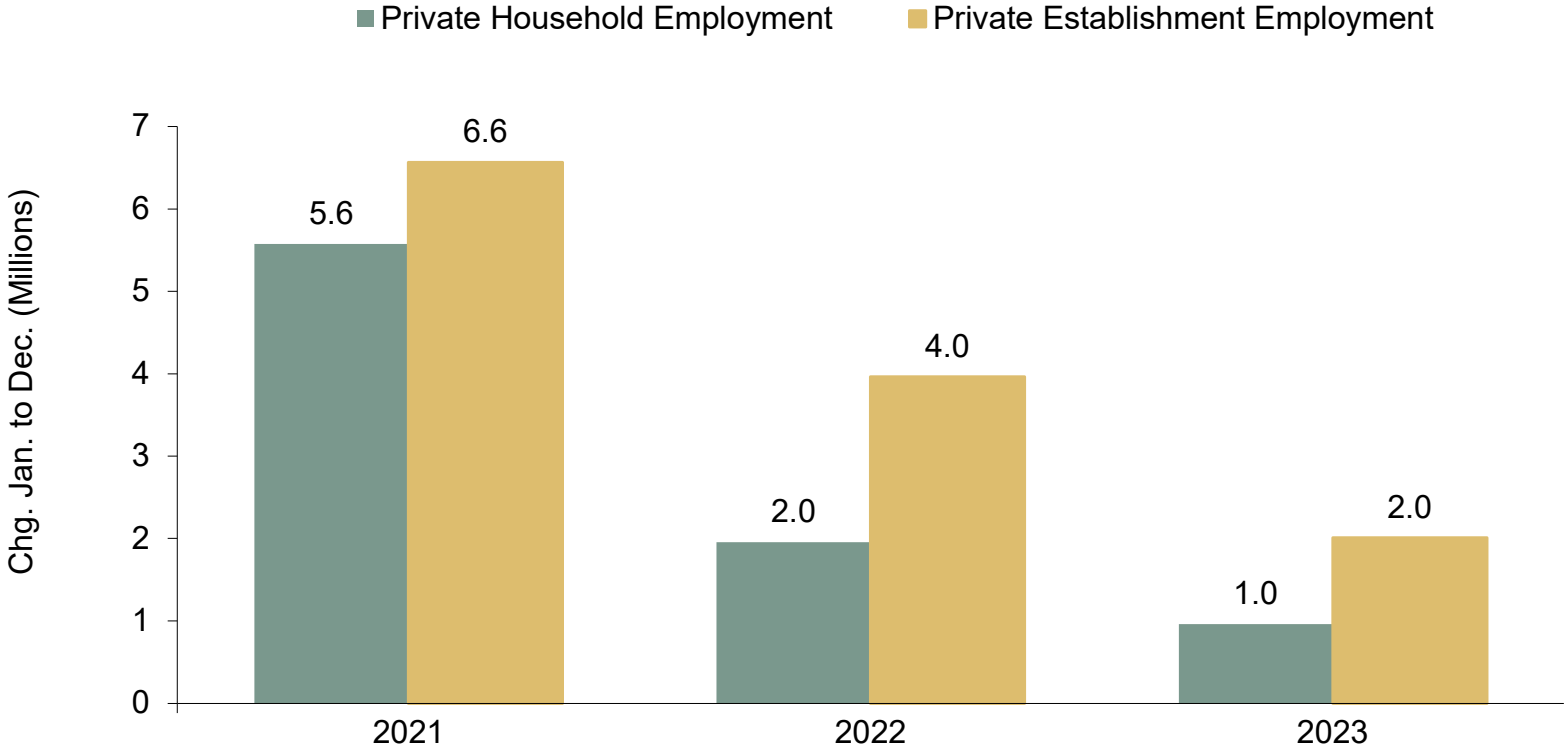
Job Gains Are Not What They Appear



Source: Census, BLS, Haver, SMBC Nikko

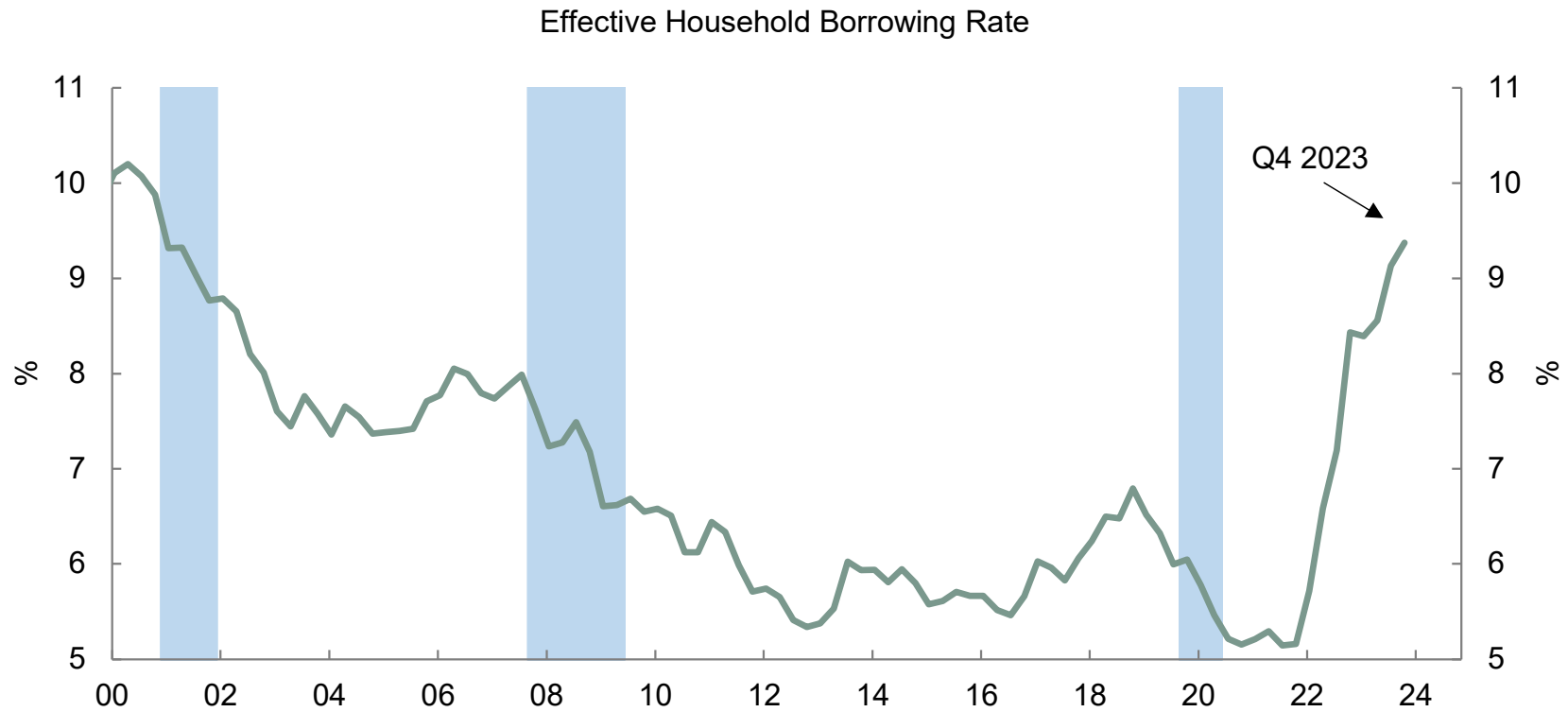


Yet Another Reason to Doubt Payroll Strength



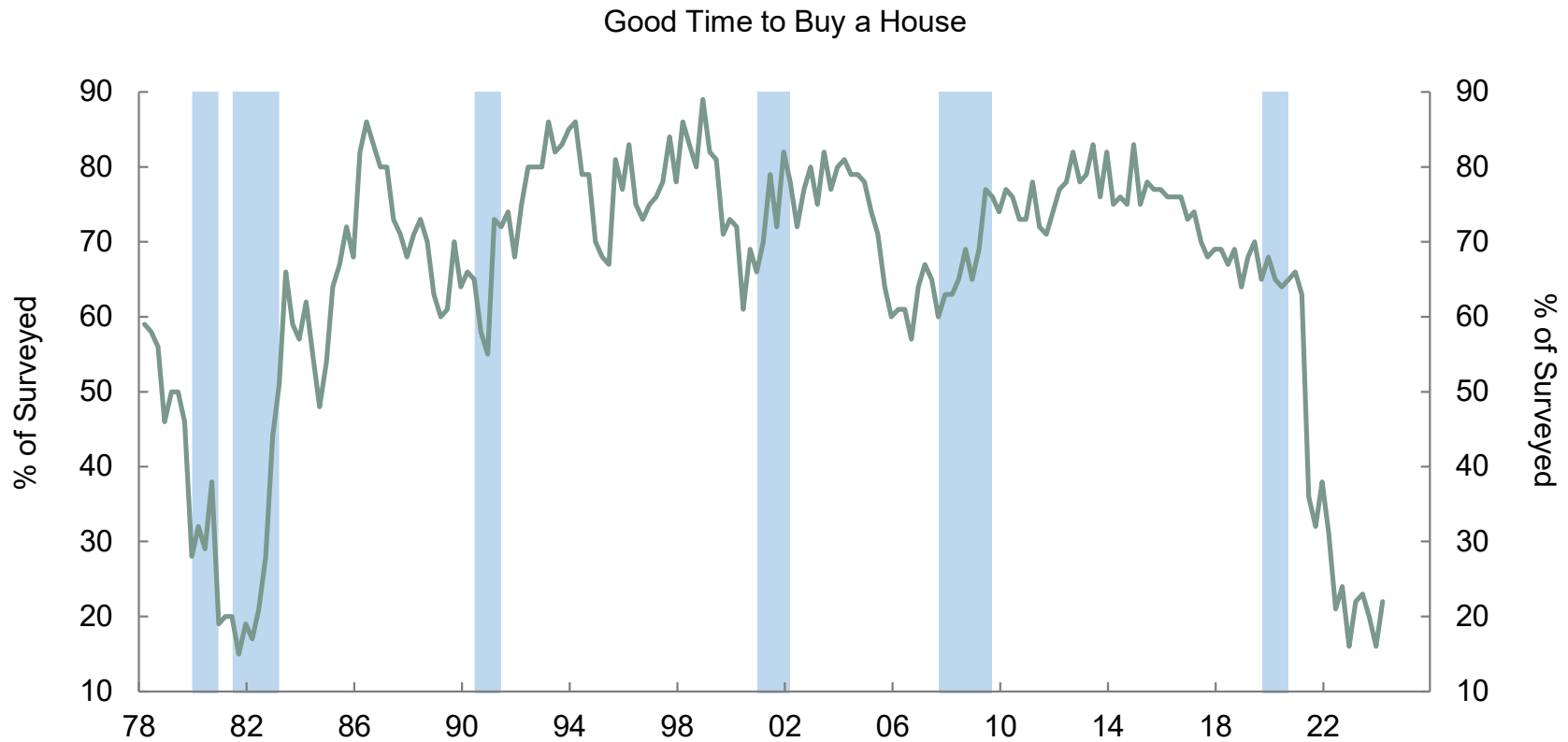
Source: BLS, Haver, SMBC Nikko

Financial Conditions Are Tightening For Consumers

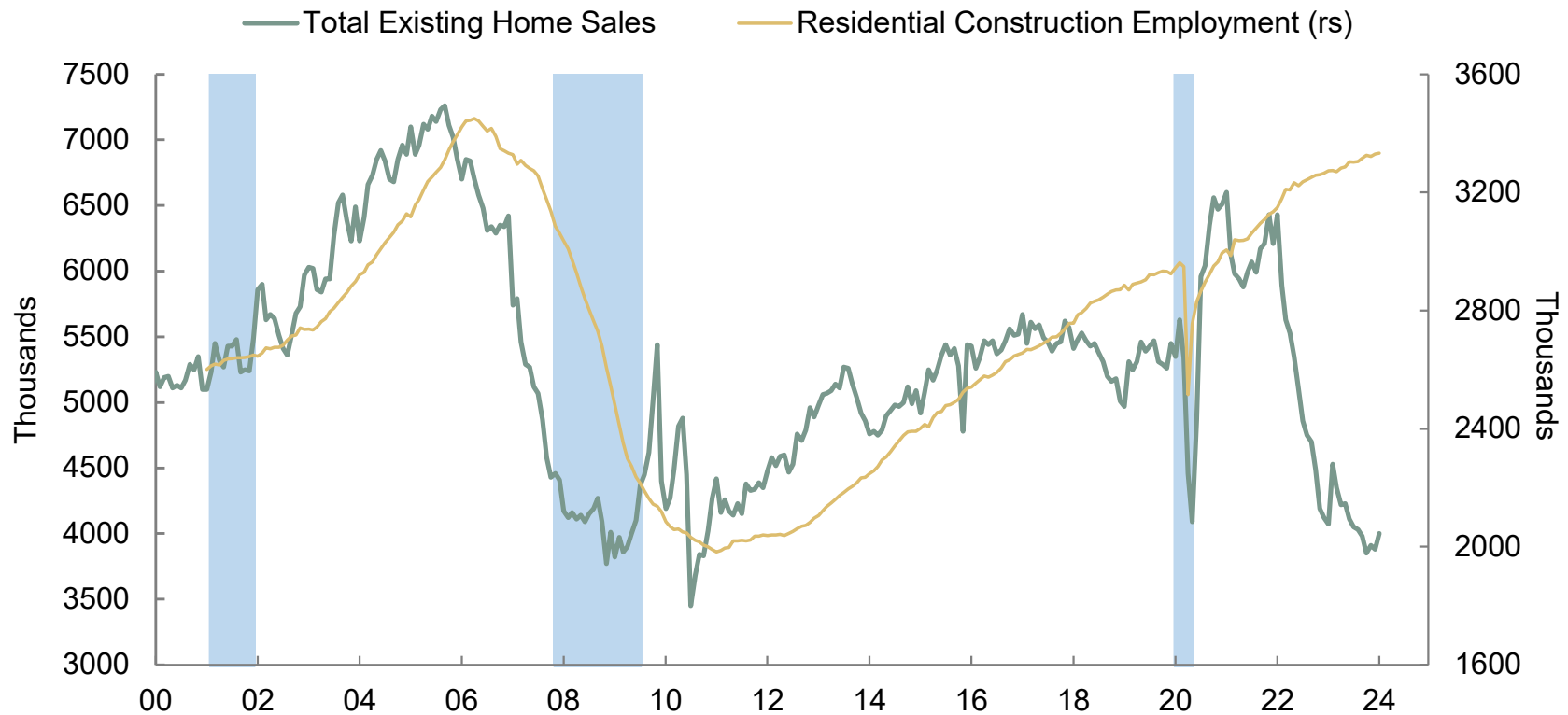


Source: FRBNY, Freddie Mac, FRB, Haver, SMBC Nikko

Rates and Prices Need to Fall

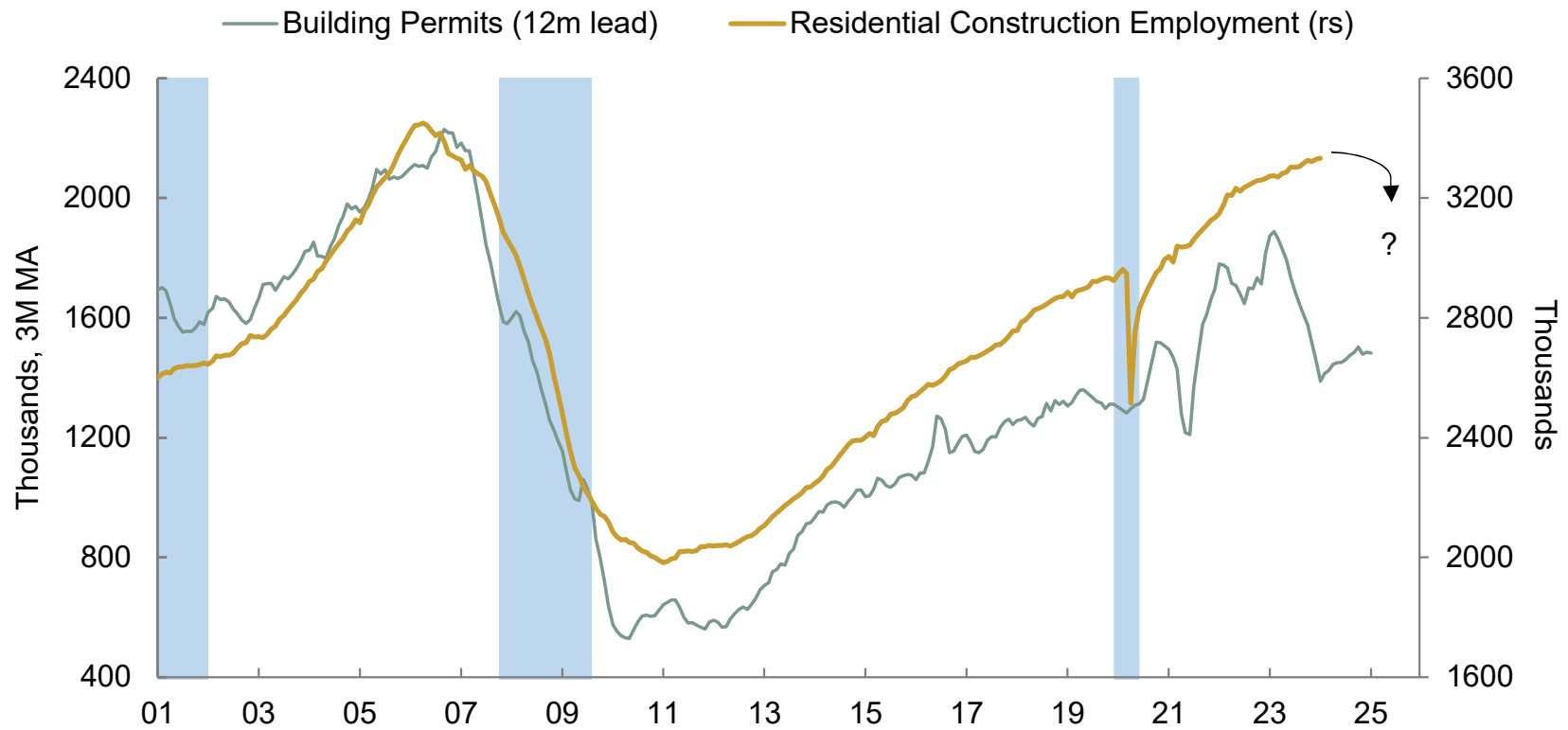


Either Home Sales are Too Low or Jobs are Too High



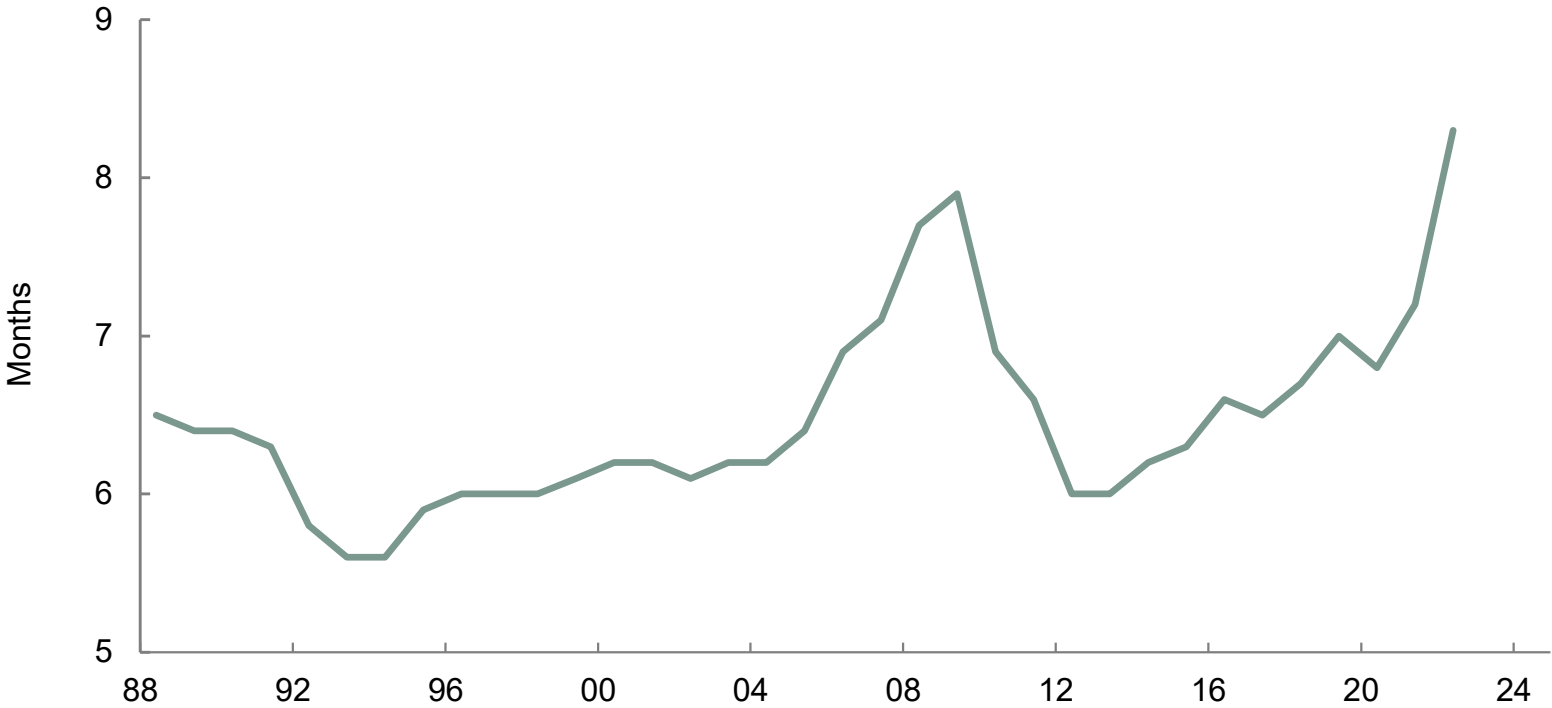
Source: NAR, BLS, Haver, SMBC Nikko

Is This Time Different?

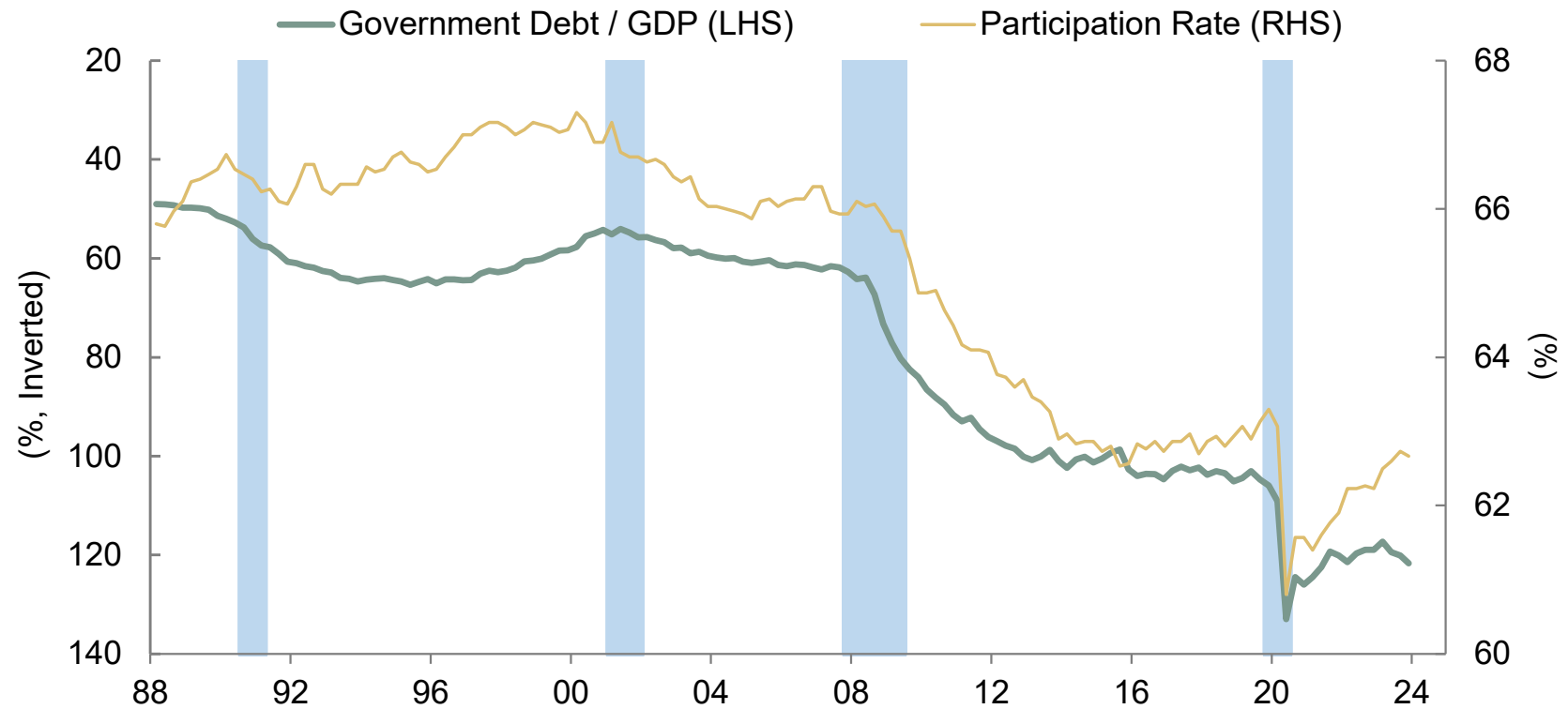


Why is Construction Labor Demand So Strong?

Average Length of Time from Start to Completion: 1-Unit Buildings

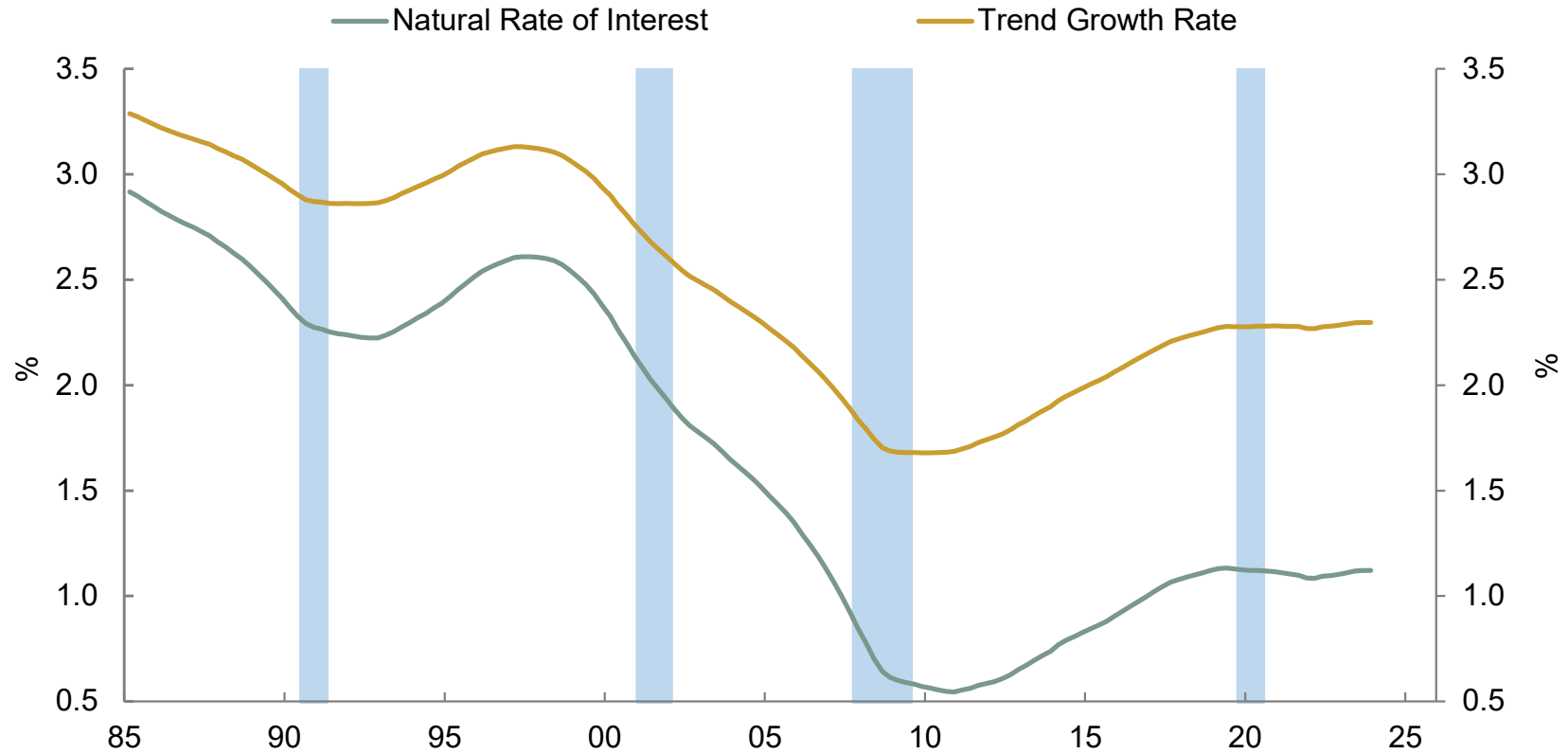


Higher Debt + Lower Labor Supply



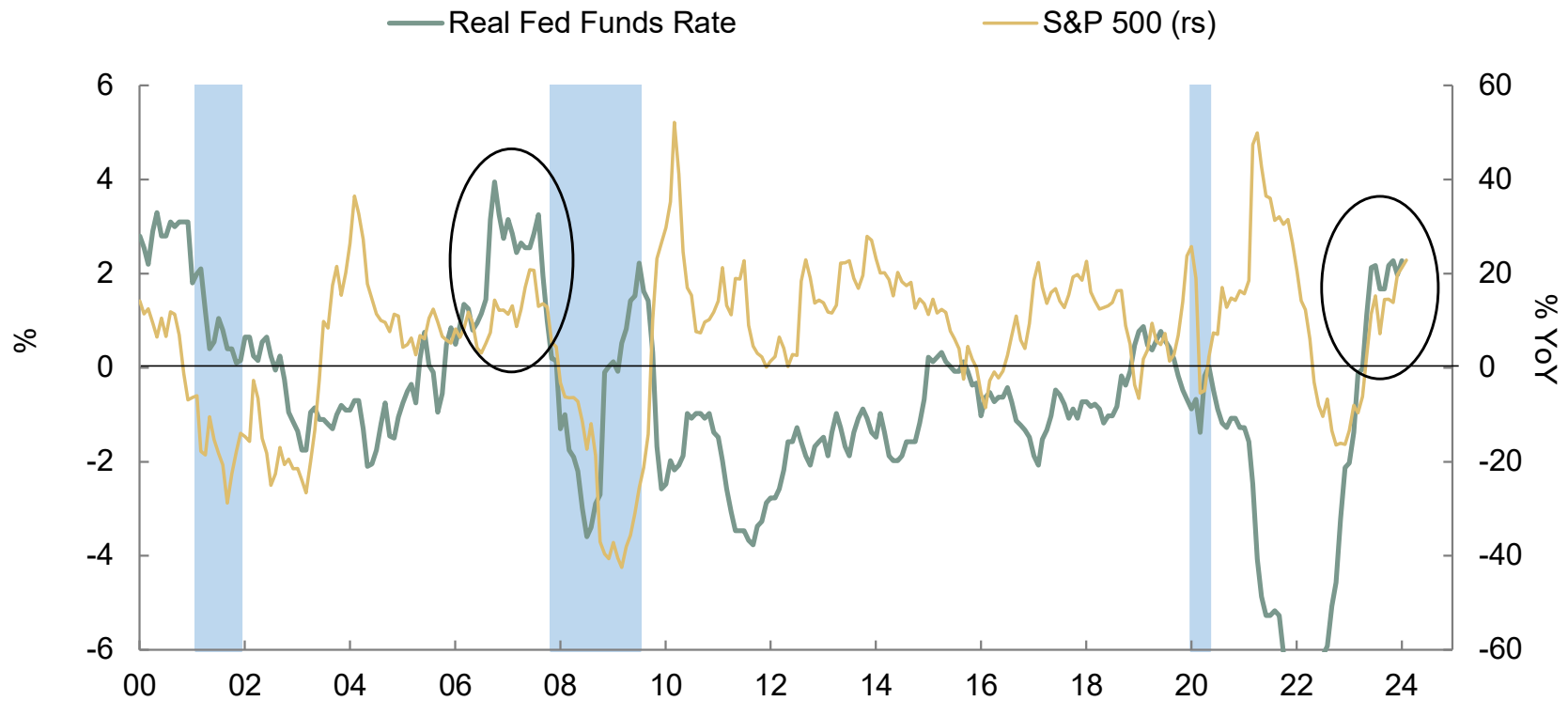
Source: Treasury, BEA, BLS, Haver, SMBC Nikko

What is R-star and Why is it Important?



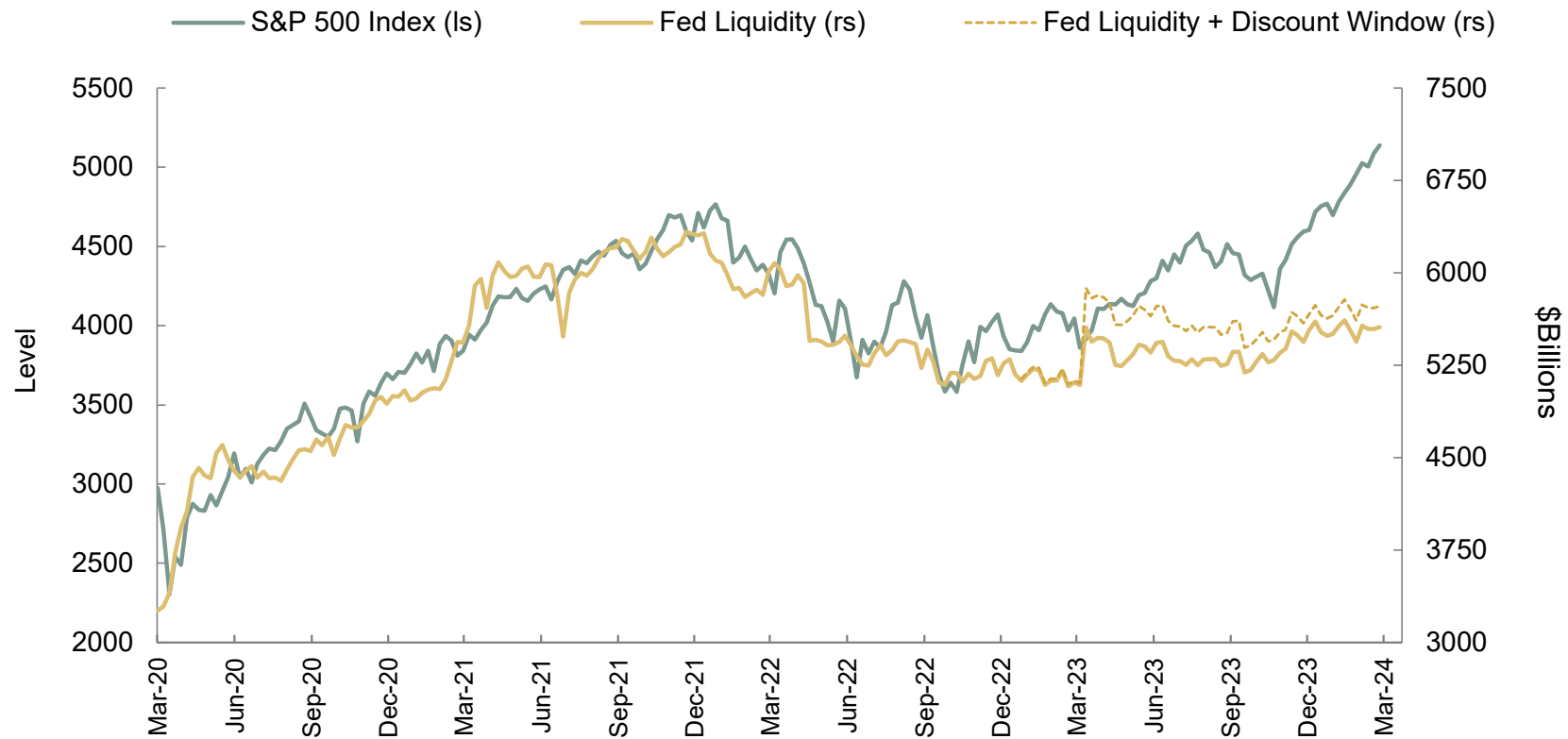
Source: NY Fed, Haver, SMBC Nikko

Monetary History May Not Repeat But Does Appear to Rhyme



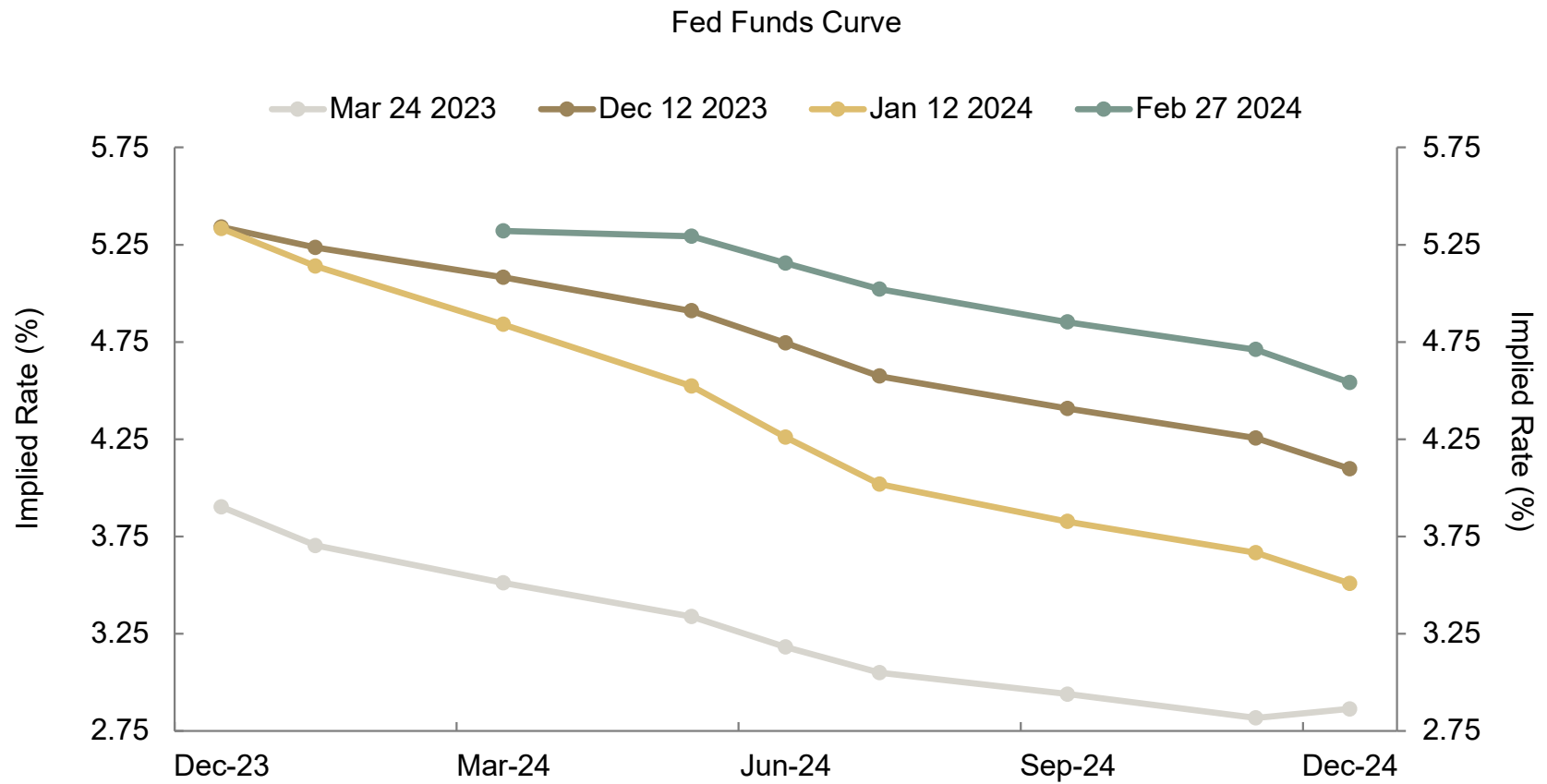
Source: FRB, BLS, S&P, Haver, SMBC Nikko

Liquidity Alone Cannot Explain the Big Rally in Stocks

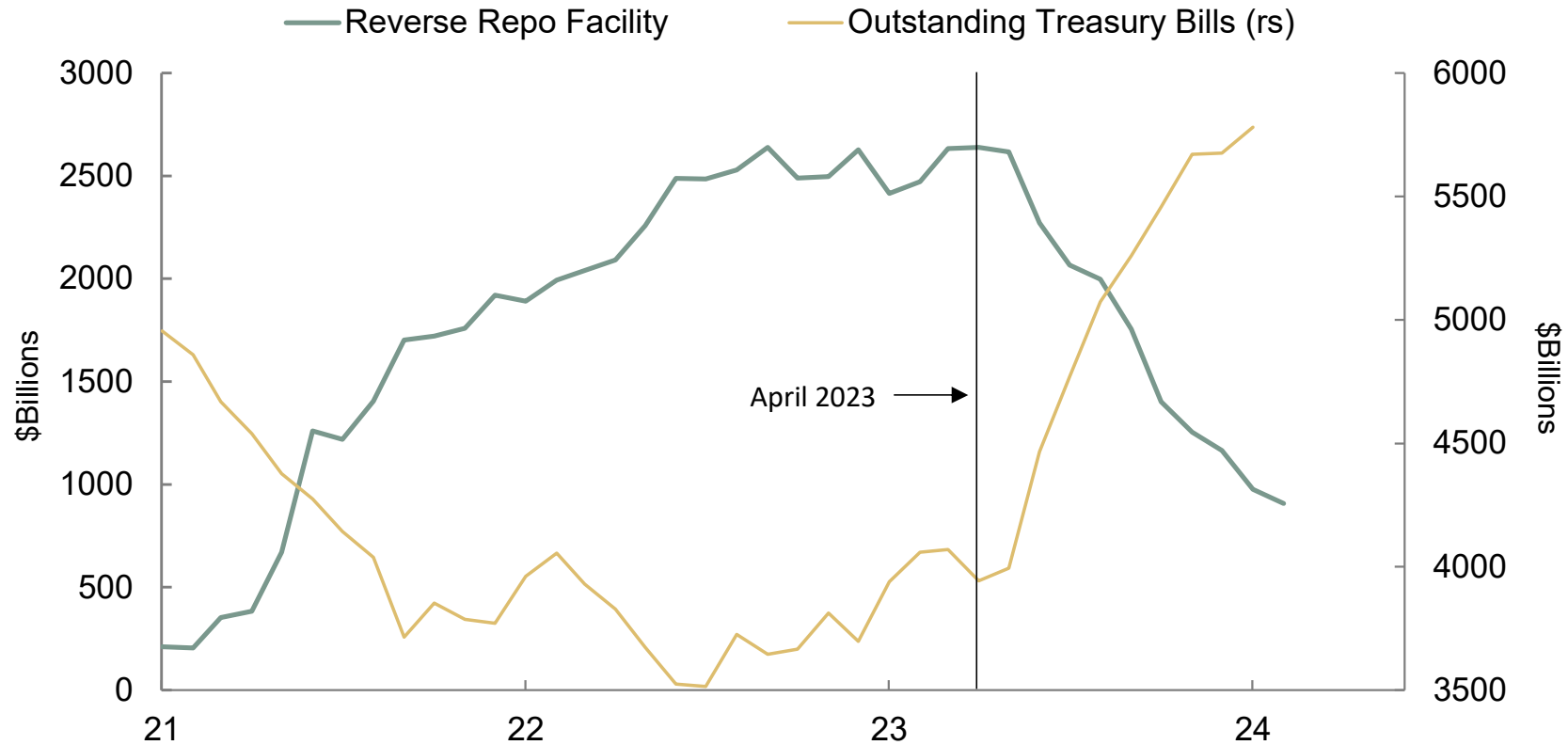


Source: S&P, FRB, Haver, SMBC Nikko

Dramatic Shift in Fed Expectations

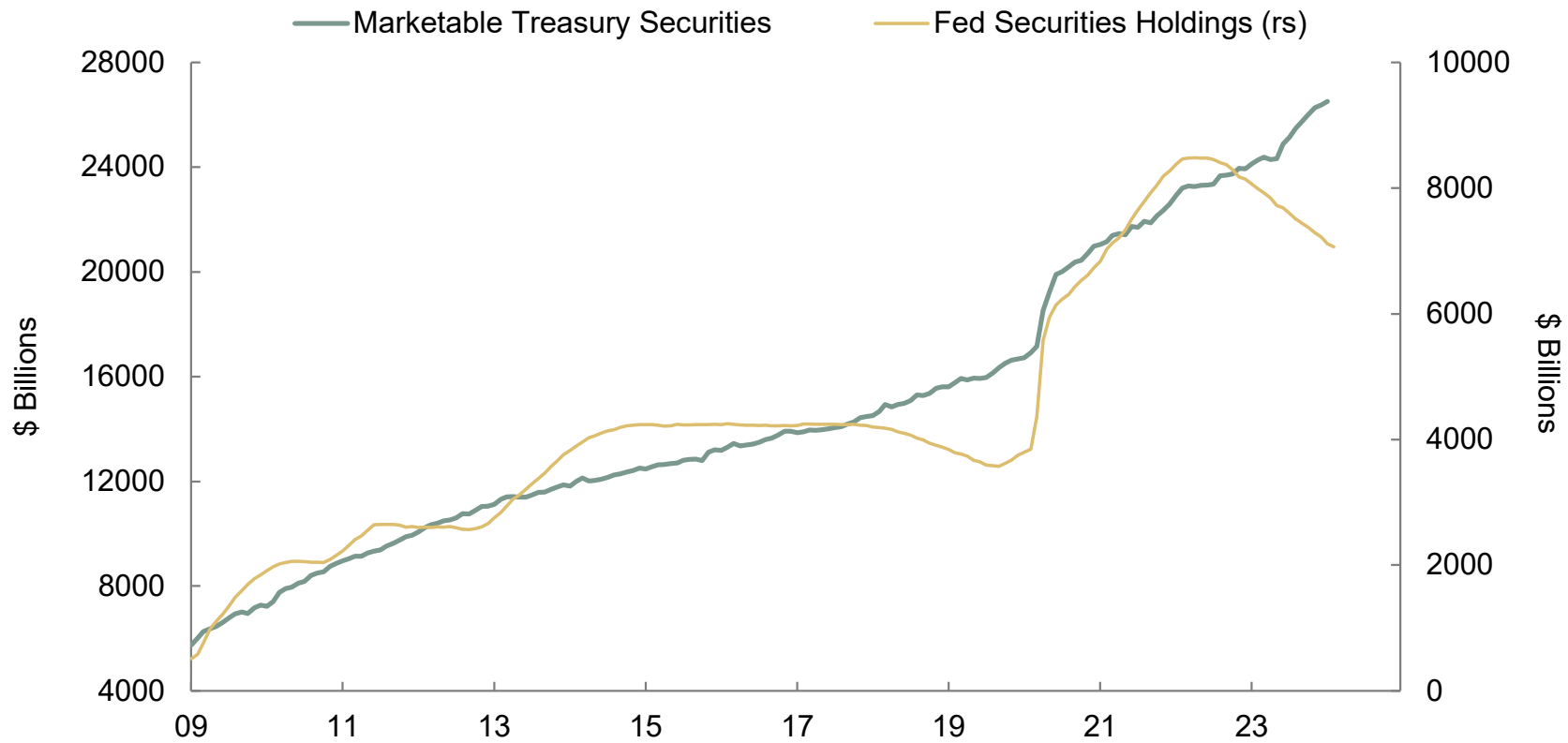


When Will the Fed Stop QT?



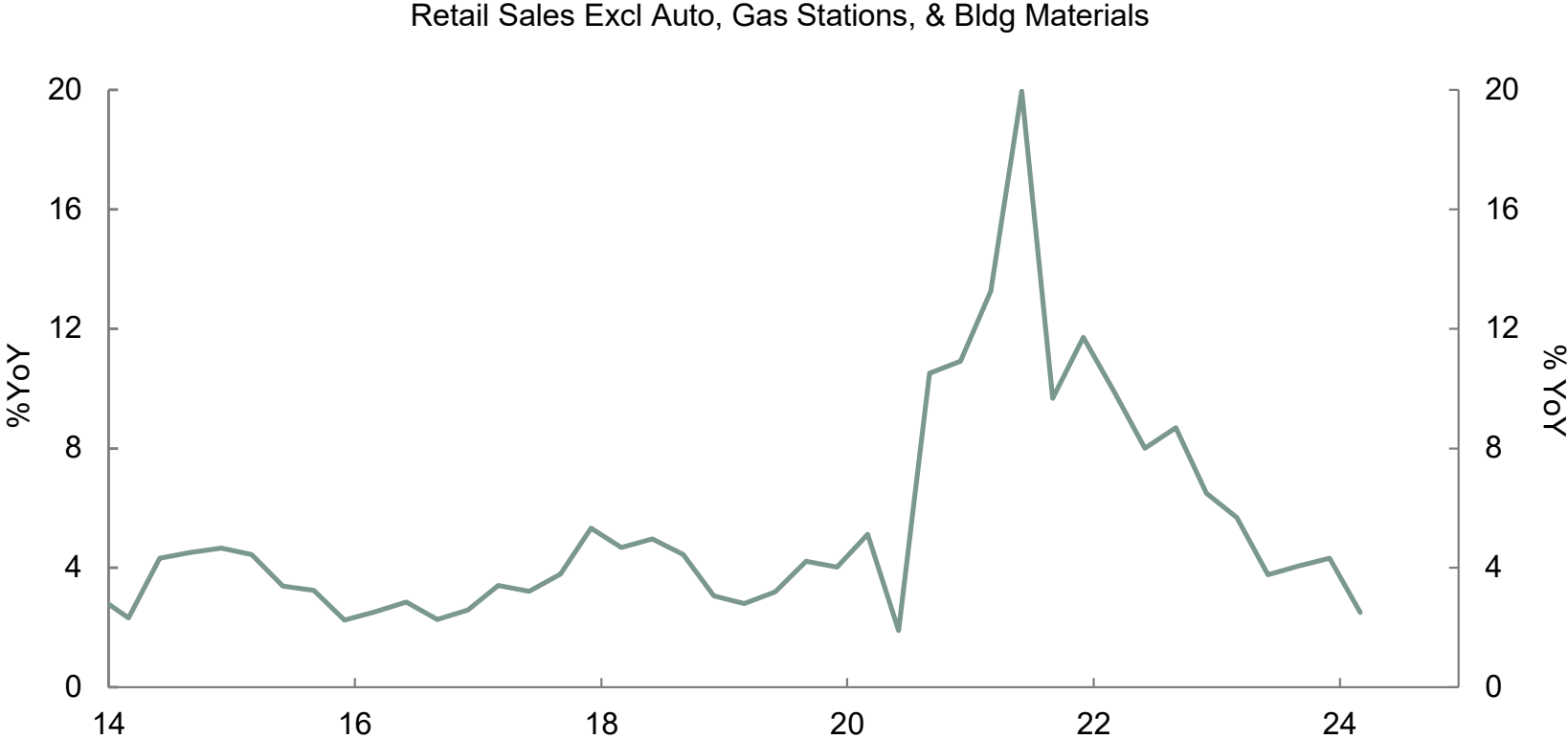
Source: Federal Reserve Board, US Treasury, Haver, SMBC Nikko

QT is Running on Fumes

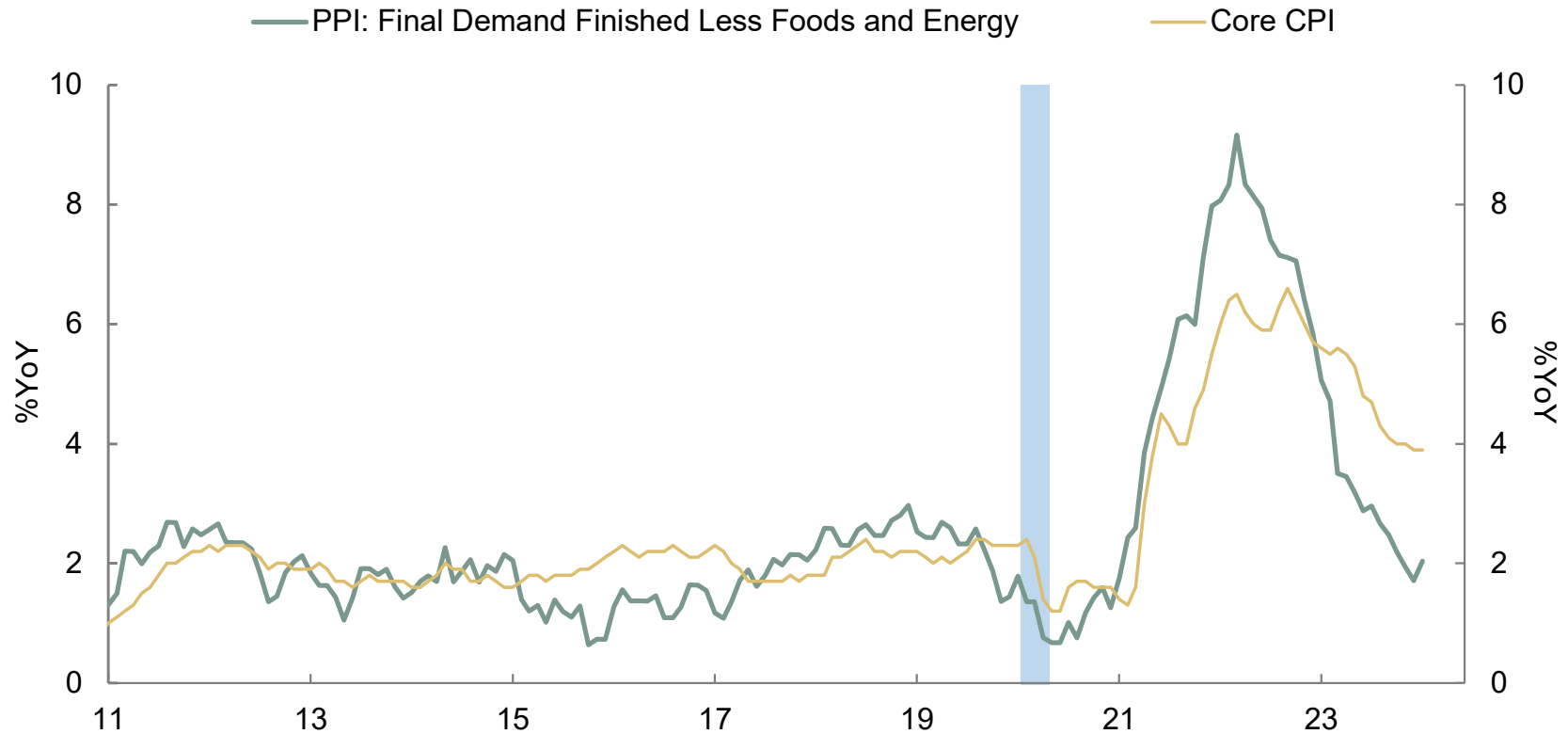


Source: US Treasury, Federal Reserve, Haver, SMBC Nikko

Weak Retail Sales May be a Harbinger of Things to Come

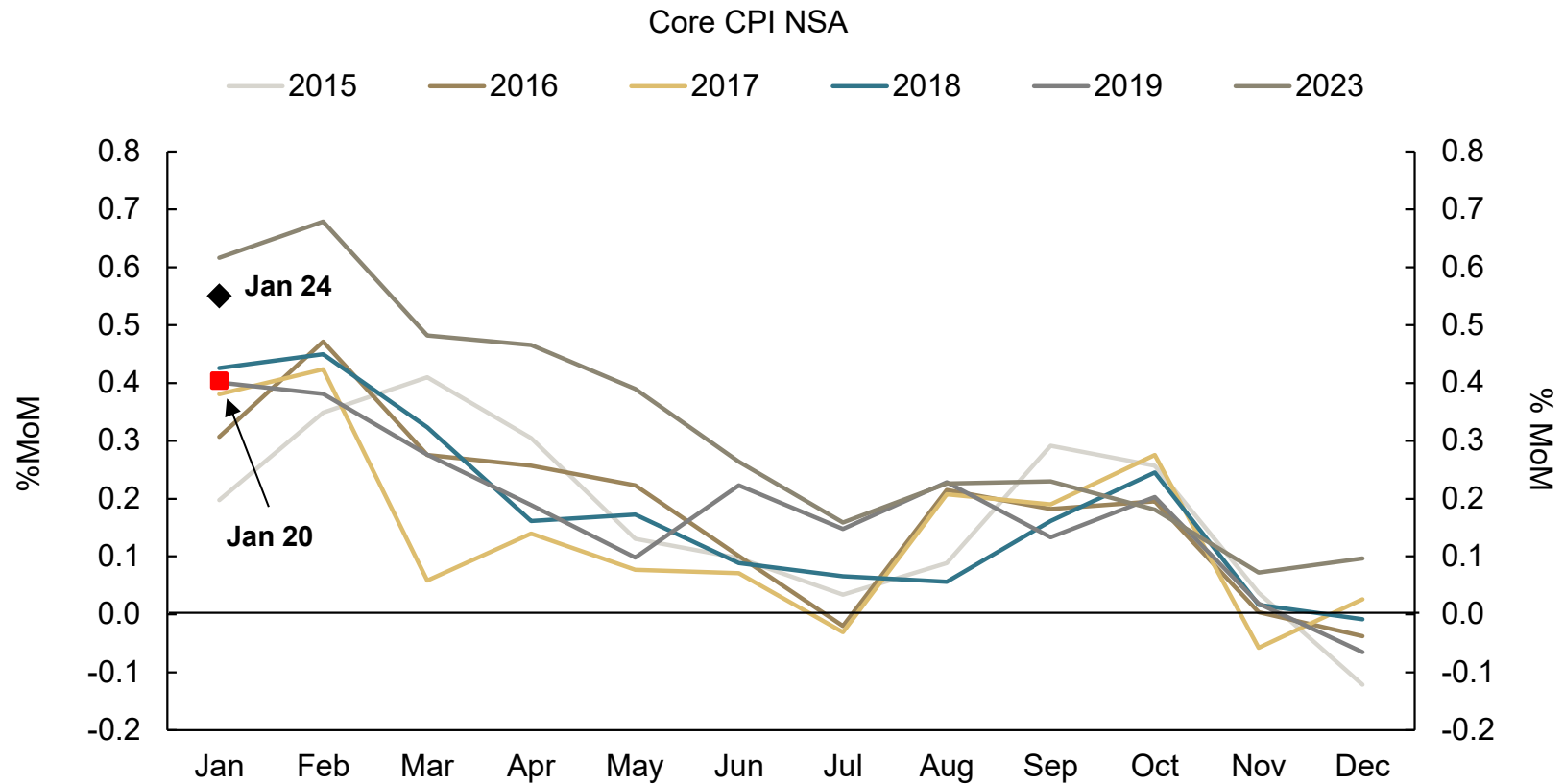


Is January a Trend Reversal or a Statistical Anomaly?

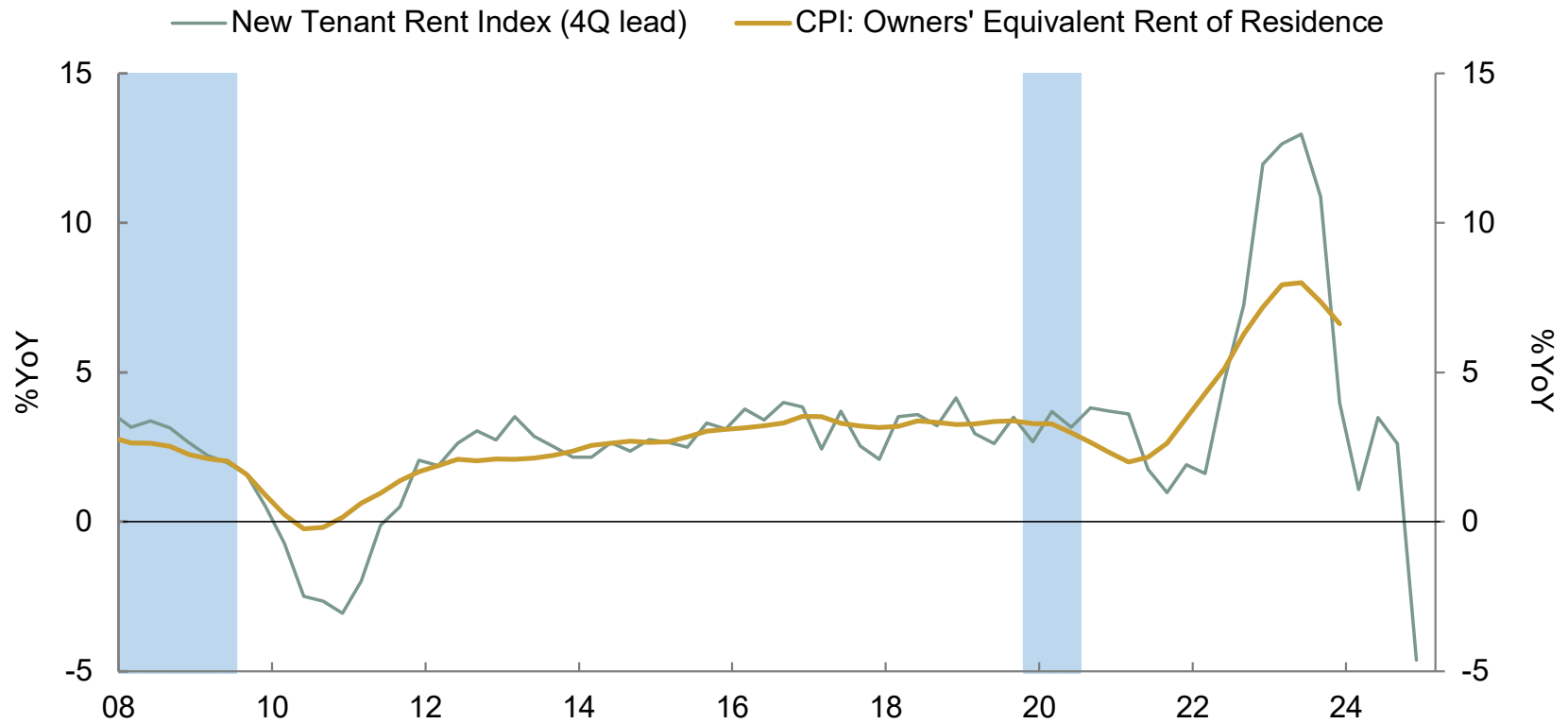


Source: BLS, Haver, SMBC Nikko

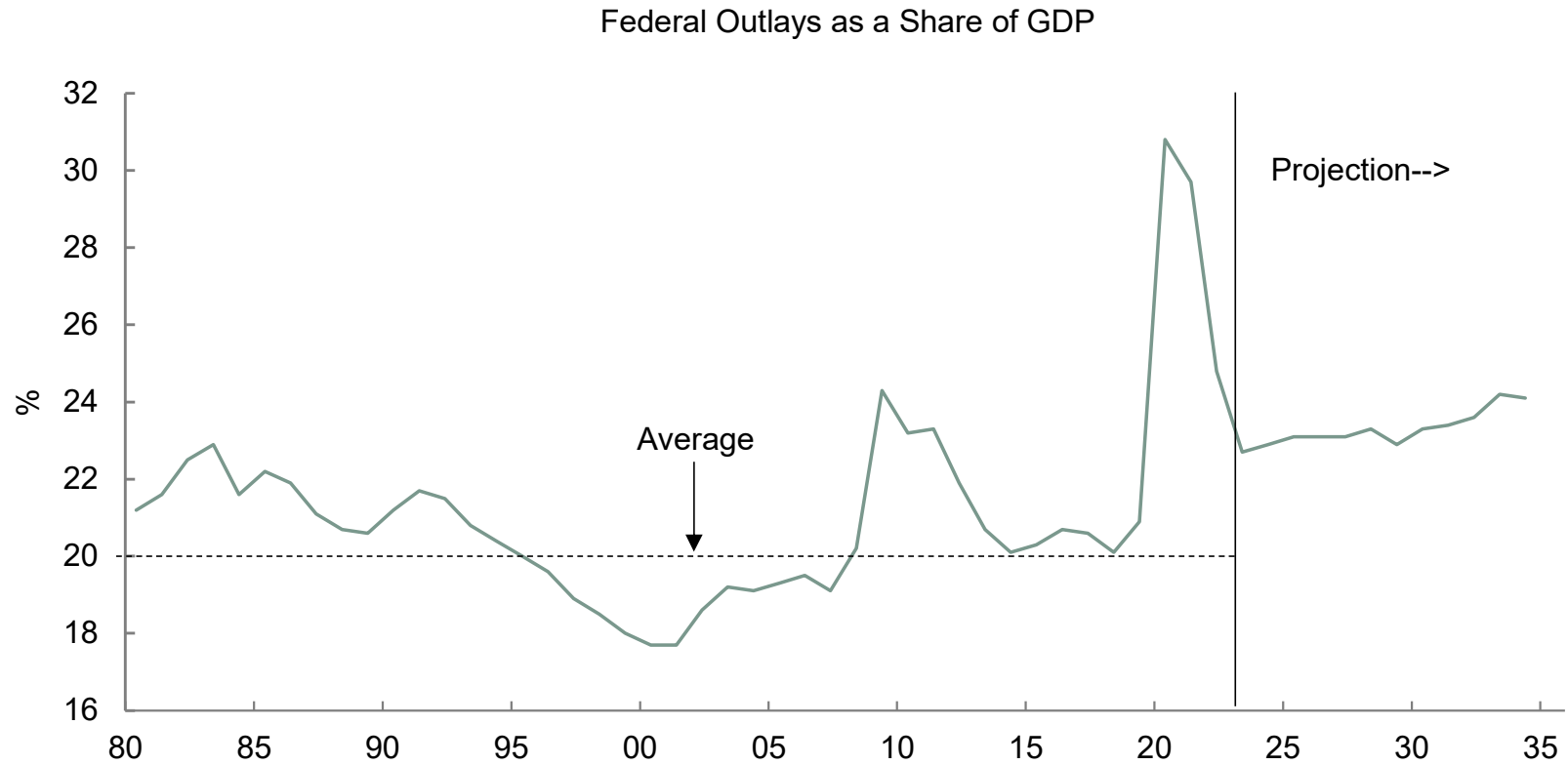
Are We in Store for Another Upward CPI Surprise?



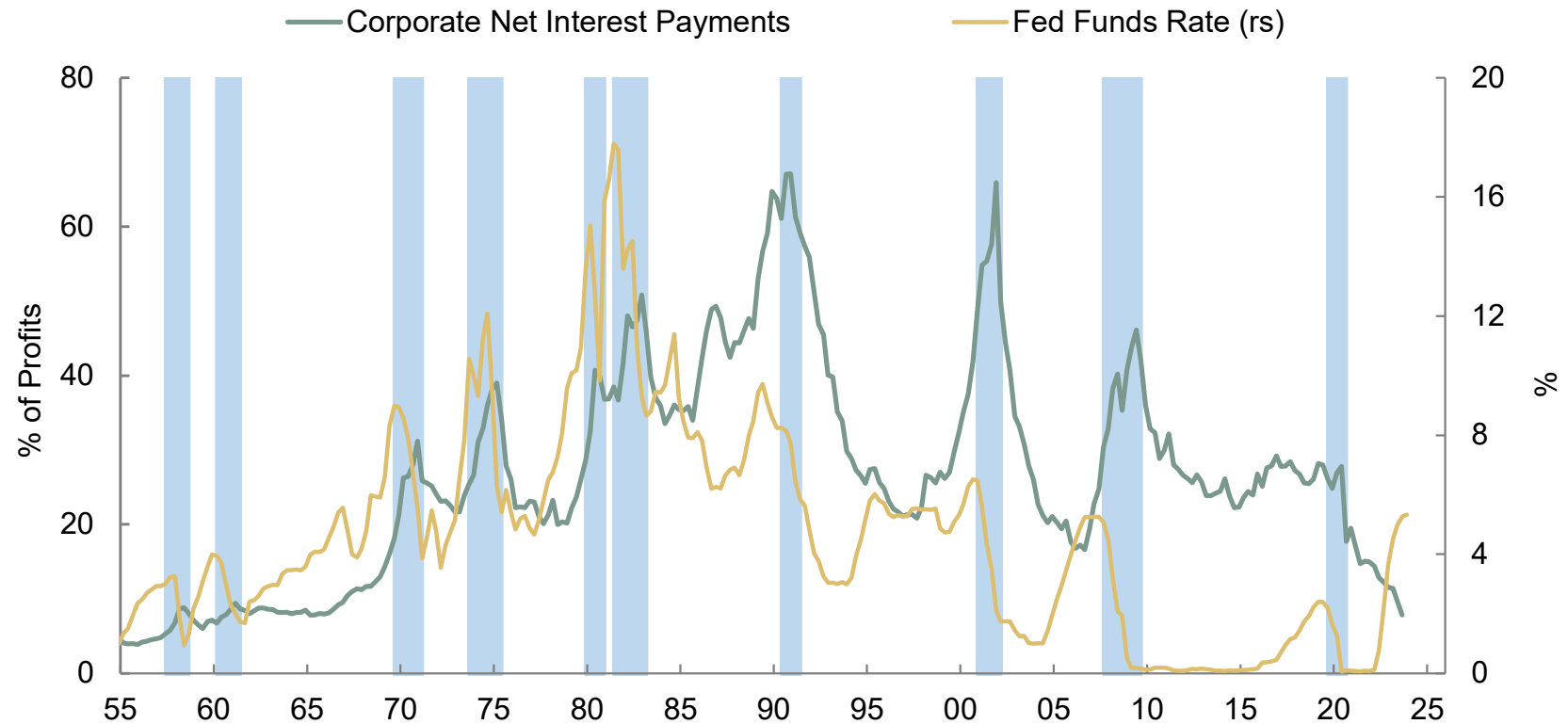
Elevated Inflation Unlikely to Persist if Rent Price Gains Subside



Fiscal Recklessness



Companies Have Blunted the Effect of Tighter Monetary Policy



Source: BEA, Federal Reserve, Haver, SMBC Nikko



Joseph (Joe) A. LaVorgna

Managing Director

Chief Economist

SMBC Nikko Securities America, Inc.

Joseph (Joe) LaVorgna is a Managing Director and Chief Economist for SMBC Nikko Securities America, Inc. Joe joined the firm in September 2022 and is based in New York. Joe has spent more than 25 years in the financial services industry.

He was previously the Chief Economist for the Americas at Natixis. While there, Joe took a one year leave of absence to serve at the White House where he was Special Assistant to the President, and Chief Economist of the National Economic Council.

Prior to Natixis, Joe spent 20 years with Deutsche Bank Securities in the Global Markets Division, where he was considered one of the leading Wall Street economists. His team was perennially ranked in the prestigious Institutional Investor All-Star Fixed Income Survey.

Joe is also a Senior Fellow at the America First Policy Institute, a Washington, D.C. based think tank. He holds a Bachelor of Arts degree in Economics from Vassar College and did graduate work at New York University.

Disclaimers

This document is provided by SMBC Group (including, collectively or individually, Sumitomo Mitsui Banking Corporation, SMBC Nikko Securities America, Inc., and their affiliates, as applicable) for informational purposes only, solely for use by the client(s) or potential client(s) to whom such document is directly addressed and delivered. This document was prepared by SMBC Group's economist(s).

This document has been prepared for and is directed at institutional investors and other market professionals, and is not intended for use by retail customers. It does not take into account any specific investment objective, financial situation, or particular need of any recipient. The information contained herein should, for whatever purpose, be used solely at the discretion and responsibility of the recipient. SMBC Group does not accept any liability or responsibility for any results in connection with the use of such information. Recipients are responsible for making final investment decisions and should do so at their own discretion following their own independent analysis and assessment of the merits of any transaction prior to execution, after conducting a careful examination of all documentation delivered, explanatory documents pertaining to listed securities, prospectuses, and other relevant documents. The financial instruments discussed may be speculative and may involve risks to principal and interest.

Conflicts of Interest Disclosures

The views, statements, assumptions and forecasts expressed herein may differ from those expressed in globally branded research produced by SMBC Group. The trading desks of SMBC Group trade or may trade as principal in the financial instruments that are the subject of this material, and the author(s) of this document may have consulted with the trading desks while preparing this document. The proprietary interests of SMBC Group may conflict with those of the recipient. SMBC Group may seek to do business with the companies mentioned in this material and the trading desks may accumulate, be in the process of accumulating or have accumulated, long or short positions in the financial instruments mentioned and may have acquired them at prices no longer available. The trading desks may also have or take positions inconsistent with the views expressed in this document or may have already traded on those views.

This material is not a research report, and neither this material nor its author(s) is subject to policies and procedures that apply to the globally branded research reports and research analysts of SMBC Group or to legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research. This means that on the date of this document, SMBC Group, and its directors, representatives, or employees, may have a long or short position in any of the instruments mentioned in this document and may make a market or trade in instruments economically related to the securities, derivatives or other underlying assets mentioned herein, in each case either as principal or as agent.

No part of the author(s) compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed herein. The personal views of authors may differ from one another.

This document is the property of SMBC Group, subject to copyright. Any reproduction of this document, in whole or in part, is prohibited, and you may not release this document to any person, except to your advisors and professionals to assist you in evaluating the document, provided that they are obligated, by law or agreement, to keep the document confidential. Distribution, possession or delivery of this document in, to or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are required to inform themselves of and comply with all such restrictions or prohibitions.

© 2024 SMBC Group. All rights reserved.